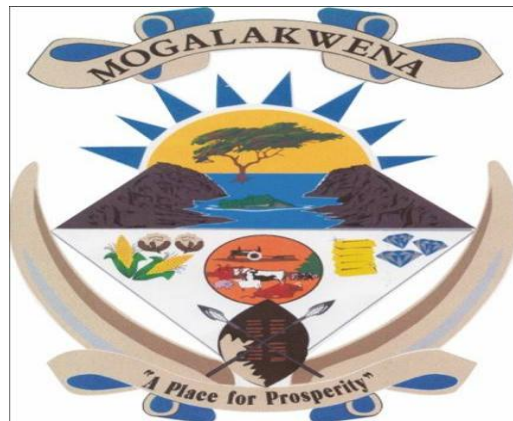


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FINAL BUDGET OF MOGALAKWENA LOCAL MUNICIPALITY



2016/17 TO 2018/19

FINAL MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Mayor's Report

The Mayor will present his report separately in the council meeting to be held on 21 June 2016.

The speech will be attached to the minutes of the council meeting.

1.2 Council Resolutions

- The final budget related resolutions will form part of the budget document after submission of the final budget to council.
- The acting municipal manager will send the approved documentation to National and provincial treasuries by 24 June 2016.

1.3 Executive Summary

The municipality's priorities and linkages to the Integrated Development Plan

The political priorities of Mogalakwena municipality are as follows:

- Water and Sanitation
- Roads and Storm water
- LED and Unemployment
- Electricity
- Institutional Arrangements
- Refuse and Solid waste management
- Land and Environmental Management
- Housing
- Crime and Prevention
- Health
- Communication
- Education
- Sports, Arts and Culture
- Community Facilities
- Transport

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Mogalakwena is responsible for the provision of the following services to 89 515 households:

- Water and Sanitation
- Roads and Storm water
- Refuse Removal
- Electricity Distribution

The priorities are linked to the IDP as outlined in the detailed Capital Investment Programme from 2016/17 to 2018/19.

Key amendments to the Integrated Development Plan

Section 25 of MSA requires that each Municipal Council must adopt a single, inclusive and strategic plan for the development of the municipality. This plan must link, integrate and co-ordinate plans and it should take into account proposals for the development of the municipality.

Section 34 provides that the IDP must be reviewed annually and amended if necessary. It is clear from the budget that stringent budget control must be implemented in order to sustain the viability of the municipality.

Alignment with national, provincial and district priorities

The priorities of Mogalakwena municipality were aligned with that of national, provincial government and the district municipality.

Strategic Objectives:

The following key strategic objectives for the municipality shall provide direction to the planning and implementation process as well as to inform the operations of the municipality:

PRIORITY ISSUES	OBJECTIVES	OUTCOMES
1. Sustainable infrastructure development and maintenance	To improve the quantity and quality of municipal infrastructure and services	Enhanced and sustainable socio economic growth
2. Building and Retention of Institutional capacity	To ensure that all stakeholders within the institution are adequately capacitated and retained	Competent and productive workforce

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3. Revenue enhancement	Ensuring sound and efficient financial management	Sustainable financial viability
4. Stimulating economic development	To create inclusive and well-coordinated investment opportunities for the growth of the economy	Reduced poverty
5. Consistent and regular monitoring, reporting and evaluation	To develop and implement integrated management and governance systems	Accountable and good governance – clean audits
6. Effective and clear communication		
7. Integrated land use planning & management	To ensure the optimum utilization of land	Coordinated, rational, regulated and orderly land development and utilization

Key demographic, economic and other assumptions

Demographic overview

According to Census 2011, Mogalakwena Municipality contains over 45% of the Waterberg district's population with a total population of 307 682 and 89 515 households. The Africans are in majority (295 796) and constitute approximately 96% of the total Mogalakwena municipality population. The white population is 9274, coloured population is 403 and the Indian/Asian population is 1646. Just over 53% of the population is females. The table below compares municipal demographics per racial group and sex.

Table 1 : Population by racial group and sex

POPULATION GROUP	MALES		FEMALES		TOTAL		2011 CENSUS
	NUMBER OF PERSONS	PERCENTAGE OF POPULATION	NUMBER OF PERSONS	PERCENTAGE OF POPULATION	NUMBER OF TOTAL POPULATION	PERCENTAGE OF TOTAL POPULATION	% OF THE POPULATION IN WATERBERG DISTRICT
Black African	137512	95.7%	158285	96.5%	295797	96.1%	43.5%
White	4583	3.2%	4691	2.9%	9274	3.0%	1.4%
Coloured	208	0.1%	195	0.1%	403	0.1%	0.1%
Indians	984	0.7%	661	0.4%	1645	0.5%	0.2%
other	415	0.3%	148	0.1%	563	0.2%	0.1%
Total Population	143702	100%	163980	100%	307682	100%	45%

Source: StatsSA Census 2011

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Interpretation and Implications to the developmental mandate of the Municipality

Figures from the 2011 census indicate a population increase of 3 % (about 9242) from the situation in 2001. The Municipality renders services to households and therefore adopts the layman's view that the number of households has increased significantly between 2001 and 2011. The increase in the number of households, particularly in the rural areas where there are minimal services, has increased backlogs in electricity provision, housing needs, roads, access to water, sanitation needs, etc. There are arbitrary differences in figures with regard to racial groups' representations. Although racial integration is gradually being achieved through some blacks moving from the traditional black towns and rural areas to settle in Mokopane, there is a widening gap between the rich and the poor. Racial segregation is replaced by socio-economic segregation. There is therefore a need to speed up integrated human settlement in order to proactively address resultant social ills (such as crime, and skewed unsustainable development).

Table 2 Population distribution according to age

	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44
NUMBER OF RESIDENTS	39189	33751	32704	36240	29078	23236	17990	16459	13598
PER AGE GROUP	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+
	13388	11222	9796	8356	6645	6587	3964	2999	2480

Source: StatsSA Census 2011

The majority of the population is aged between 0 and 19 followed by those aged between 20 and 34, which suggests that the municipality is dominated by people who are both socially and economically active. In addition, the municipal area has a high dependency ratio due to the majority of the population aged between 0-19. However, the Municipality has to prioritize social programmes and projects which will be able to address the socio-economic needs of the people. For example, there is a need to increase the number and improve the quality of social amenities in the municipal area, preferably within the municipal growth points. There is also a high probability of the spread of sexually transmitted diseases, such as HIV/AIDS. The Municipality should therefore encourage and support HIV/AIDS programmes in at least all the nodal points. Attention should also be paid to local economic development initiatives in these population concentration points.

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Number of residents per income type	No income		R1 - R400		R401 - R800		R801 - R1 600		R1 601 - R3 200		R3 201 - R6 400	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
	1 028	132 367	7 158	83 069	8 135	8 658	7 240	41 578	6 146	10 729	4 958	7 126
	R6 401 - R12 800		R12 801 - R25 600		R25 601 - R51 200		R51 201 - R102 400		R102 401 - R204 800		R204 801 or more	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
	1 711	6 538	466	1 771	144	175	65	149	18	85	11	328

Source: StatsSA Census 2001 and 2011

Economic overview

Table 3: Employment Status, 2001 vs. 2011

GENDER	EMPLOYED		UNEMPLOYED		NOT ECONOMICALLY ACTIVE	
	2001	2011	2001	2011	2001	2011
FEMALE	16 345	21 358	19 172	17 833	56 353	59 600
MALE	20 744	25 679	14 526	13 777	37 919	51 396

Source: StatsSA Census 2001 & 2011

One of the key social problems facing the Mogalakwena Municipality is poverty. The unemployment estimates in the Municipality vary between 45% and 70% of the economically active population (people between the ages of 15 and 64 years). Women, and especially rural women, form the greatest number affected by the lack of job opportunities as well as other social problems.

Other assumptions

NERSA has issued a directive indicating an average increase of 7.64% on electricity for the 2016/2017 financial year. The implementation of the tariff is subject to final confirmation of the percentage by NERSA.

The tariff increase for water is based on a 8% projection by Lepelle-Northern Water.

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Progress with provision of basic services

Access to services

Service	No of households having services	Backlog
Water (RDP level)	83 173	6 342
Electricity	77 359	12 156
Refuse removal	52 342	37 173
Sanitation	60 853	28 662

Indigent welfare packages for 2016/17:

Package Indigent	Compilation for	15/16 R(Vat included)	16/17 R(Vat included)
Rates – R100 000 Valuation		40.68	43.12
Refuse (up to 500 m2)		49.76	52.74
Sewage (up to 500 m2)		27.15	28.78
Electricity – 50kwh		39.00	41.98
Water – 6kl		72.50	78.30
Total indigent package per month		229.09	244.93

Free and subsidized services provided to the following number of households:

Water	2 916
Electricity	2 916
Sanitation	2 916
Refuse Removal	2 916
Rural Sanitation	43 903
Rates	2 916

It should be noted that only indigents received 50kwh of free basic electricity. Due to financial constraints, the status quo will remain as such in the 2016/17 financial year.

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Service charges and other fees and charges

Service	% increase
Water	8
Electricity	7.64
Refuse removal	6
Property rate	6
Sewerage	6

The effect of the annual budget

The demand on the municipality in terms of service delivery continues to grow and this results in an ever-increasing outflow on the resources at the disposal of the municipality. The following factors will continue to constraints on the municipality's 2016/2017 budget:

- The municipality has budgeted for a 7% increase in employee salaries.
- R30 million has been budgeted for the implementation of job evaluation results currently being conducted by SALGA.
- Excessive water and electricity losses put a burden on the municipality as its revenue that is uncollectable.
- A revenue enhancement strategy needs to be developed to increase the revenue generation capacity of the municipality.

The following table is a summary of the total budget:

	2016/2017	2017/2018	2018/2019
Total income	-1 168 347 607	-1 217 923 534	-1 338 522 200
Total operating expenditure	848 802 694	891 382 870	956 494 249
Operating surplus	-319 544 913	-326 540 664	-382 027 951
Changes in net assets	319 544 913	326 540 664	382 027 951
Closing (Surplus) /Deficit	-	-	-

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Past performance and impact of the previous year's audited results and annual report

Mogalakwena Municipality obtained a disclaimer audit opinion in the 2014/2015 financial year. Major issue that led to the unfavourable audit opinion are:

- Asset Management
- Supply Chain Management
- Documents not being available for audit purposes
- Contracts (Commitments on capital projects)
- Budget management
- Provision for landfill site
- Valuation roll
- Fraud

An audit action plan was drafted to address issues raised by the Auditor General and queries are currently being addressed. This is done with the aim of ensuring that the municipality improves its audit opinion in the 2015/2016 audit.

Consolidated financial position and summary medium term revenue and expenditure strategy

The sustainability of the municipality will be adversely affected in the long-term if debt collection is not improved. The municipality invests a lot of its reserves in critical infrastructure capital projects and therefore many other capital and operational needs cannot be funded. The municipality has appointed two debt collectors in order to improve the collection rate so as to strengthen the financial position and be able to fund all critical programmes in the future.

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1.4 Operating Revenue Framework

1.4.1 Grant allocations

The Division of Revenue Bill allocations to Mogalakwena Municipality for the 2016/2017 to 2018/2019 financial years are as follows:

Grant allocations over the MTREF

Grant type	2016/2017	2017/2018	2018/2019
	(R'000)	(R'000)	(R'000)
Equitable Share	348 115	374 756	400 616
Finance Management Grant	1 650	1 700	1 955
Municipal Infrastructure Grant	139 486	150 230	159 231
Water Service Infrastructure Grant	30 000	53 000	72 000
Municipal Systems Improvement Grant	750	788	-
Regional Bulk Infrastructure Grant	140 000	112 000	136 488
Integrated National Electrification Grant	9 000	15 000	15 000
EPWP	2 073	-	-
Total Grant Funding	671 074	707 474	785 290

The Municipal Systems Improvement Grant is allocated as an indirect grant to Mogalakwena Municipality.

The Department of Energy allocated R5 000 000.00 for Energy Efficiency and Demand Side Management (EEDSM) Grant. The letter from the Department of Energy is attached as pages 433 to 434.

Supporting **Table SA 18, 19 and 20** is attached as pages 103 to 105.

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1.4.2 Summary of Operating Income

The following table gives a breakdown of the income categories for the 2016/17 to 2018/19 financial years:

Description	Medium-Term Revenue & Expenditure Framework		
	2016/17	2017/18	2018/19
Operating Income			
Property rates	59 966 712	62 011 380	64 550 039
Sale of electricity	240 874 290	249 037 874	276 675 595
Sale of water	68 194 863	70 941 365	75 005 165
Sewerage	18 216 738	19 209 509	20 359 860
Refuse	15 739 988	16 593 748	17 517 024
Rent facilities and equipment	1 145 375	1 211 805	1 282 092
Interest earned – external investments	33 056 564	34 196 044	36 179 414
Interest earned – outstanding debtors	2 968 107	3 140 257	3 322 392
Dividends received	-	-	-
Fines	5 804 365	6 152 626	6 521 784
Licenses and permits	61 754	65 336	69 126
Income for agency	8 742 105	9 249 147	9 785 597
Operating grants and subsidies	364 452 850	389 552 462	416 074 721
Capital grants and subsidies	318 486 000	325 230 000	377 719 000
Other income	3 537 896	3 731 981	6 260 391
Public contributions and donations	-	-	-
Profit on sale of land	27 100 000	27 600 000	27 200 000
Total Operating Income	1 168 347 607	1 217 923 534	1 338 522 200

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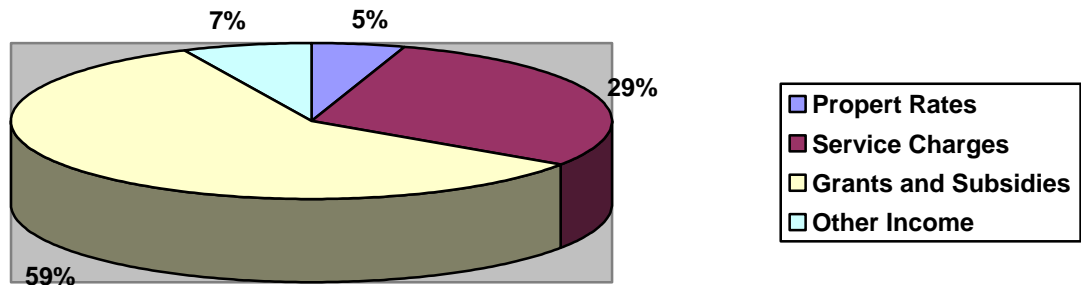


Figure 1 -Main Operational Income Categories

1.4.3 Rates tariffs and other charges

Proposed tariff increases for the 2016/17 to 2018/19 financial years with prior comparatives are the following:

Description	2015/16	2016/17	2017/18	2018/19
Rates	6%	6%	6%	6%
Refuse	6%	6%	6%	6%
Sewerage	5%	6%	6%	6%
Water	9%	8%	8%	8%
Electricity	12.2%	7.64%	25%	25%
Average Increase	7.64%	6.72%	10.2%	10.2%

- The electricity tariff increase for the 2016/17 as per the letter from NERSA is 7.64%. The letter from NERSA is attached as pages 180 to 188.
- The water tariff increase for the 2016/17 as per the letter from Lepelle-Northern Water is 8%. The letter from Lepelle-Northern Water is attached as page 196.

14.3.1 Water tariff

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of water supply for 2016/17 financial year:

- The Lepelle Northern Water (LNW) has proposed to increase their tariffs by 8% in 2016/17 financial year.

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- The LNW 8% increase on its bulk tariff from 5.76c to 6.22c per kl (excluding VAT and the Water Research commission levy).
- It is estimated that water to the amount of R20 744 460.00 will be purchased from LNW and other service providers in 2016/2017 financial year. The amount provided for in the budget is for a period of 8 months and additional funds will be allocated during the adjustments budget as the municipality will embark on a vigorous revenue generation drive to fund other activities.

A total revenue of R68 194 863.00 is expected from water sales.

- The budgeted revenue is based on connection fees, defaulting fees, monthly consumption of water and testing of meters;
- Households will receive 6kl of free basic water;
- Consumers in villages will receive Free Basic Water through assistance from council to pay Eskom, repair broken boreholes and pay pump operators.

The following recommended tariff structure for water for 2016/17 compared to 2015/16:

Type Consumer	Type Scale	Intervals	15/16	16/17
			Per Kilolitre Vat Inclusive	Per Kilolitre Vat Inclusive
Domestic:	Gliding scale	00 – 6 kl	0.00	0.00
		6 – 10 kl	11.92	12.87
		11 – 50 kl	12.65	13.66
		51 – 100 kl	15.21	16.43
		101 > kl	25.32	27.35
Businesses:	Normal		12.65	13.66
Flats:	Normal		12.65	13.66
Industrial:	Normal		12.65	13.66
Provincial Hospitals	Normal		11.92	12.87

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Schools Churches Hostels Sport clubs	Normal		12.65	13.66
Departmental	Normal		12.65	13.66
Defaulting	Normal		-	-

The abovementioned tariffs are subject to a 20% discount for unpurified borehole water as drinking water supplied to Rebone Township.

Prepaid water tariffs will be calculated when pre-paid meters are installed.

Examples of monthly water consumption charges:

Consumption KL	Current monthly account	Proposed monthly account	Additional amount payable	Increase
	R	R	R	R
6	0	0	0	0
10	47.68	51.49	3.81	8%
42	452.48	488.68	36.20	8%
75	933.93	1 008.64	74.71	8%
110	1 415.28	1 528.50	113.22	8%

1.4.3.2 Sewage tariff

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of sewage for 2016/17:

- A tariff increase of 6% is included in the final 2016/17 MTREF
- The free basic sanitation is provided for indigents only

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The following recommended tariff structure for sewage for 2016/17 compared to 2015/16:

			15/16		16/17	
TYPE CONSUMER	SIZE OF ERF	BASIC vat inclusive	ADD-ITIONAL vat inclusive	BASIC vat inclusive	ADD-ITIONAL vat inclusive	
1.	Residential	0-500	27.14		28.77	
	Houses	501-1000	54.44		57.71	
		1001-1500	86.99		92.21	
		1501-2000	97.91		103.78	
		2001-2500	108.78		115.31	
		2501-3000	119.65		126.83	
		First 3000 Every additional 500	10.87		11.52	
2.	Churches	0-500	27.14	23.00	28.77	24.38
	Hospitals	501-1000	54.44	23.00	57.71	24.38
	Creches	1001-1500	86.99	23.00	92.21	24.38
	Schools	1501-2000	97.91	23.00	103.78	24.38
	Sport clubs	2001-2500	108.78	23.00	115.31	24.38
		2501-3000	119.65	21.90	126.83	24.38
		First 3000 Every additional 500	10.87	21.90	11.52	24.38
3.	Other:					
	3.1 Businesses	Irrespective	288.23	73.40	305.52	77.80
	3.2 Industrial	Irrespective	288.23	73.40	305.52	77.80
	3.3 Flats	Irrespective	288.23	78.75	305.52	83.48
	3.4 Hostels	Irrespective	288.23	56.12	305.52	59.49
	3.5 Boarding house	Irrespective	288.23	56.12	305.52	59.49
	3.6 Departmental	Irrespective	288.23	73.40	305.52	77.80

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Examples of sewerage tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	27.14	28.77	1.63	6
1600	97.91	103.78	5.87	6
3500	130.52	138.35	7.83	6
Business	288.23	305.52	17.29	6

1.4.3.3 Refuse Removal

In terms of Section 75A of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the following tariff structure be approved in respect of refuse removal for 2016/17:

The following recommended tariff structure for refuse removal for 2016/17 compared to 2015/16 financial year:

		15/16		16/17	
TYPE CONSUMER	SIZE OF ERF	BASIC vat inclusive	ADD-ITONAL vat inclusive	BASIC vat inclusive	ADD-ITONAL vat inclusive
Domestic	Residential houses	0-500	49.75	52.74	
	Churches	501-1000	72.72	77.08	
	Church halls	1001-1500	99.24	105.19	
	Residential erven which are being build on	1501-Above	106.93	113.35	
		Per	Bulk	Per	Bulk
		Container	Container	Container	Container
Commercial	Businesses	Irrespective	190.79	1,272.48	202.24
	Industrial	Irrespective	190.79	1,272.48	202.24

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Other	Municipality	Irrespective	99.24	1,272.48	105.19	1,348.83
	Flats	Irrespective	99.24	1,272.48	105.19	1,348.83
	Old Age Homes	Irrespective	99.24	1,272.48	105.19	1,348.83
	Hostels	Irrespective	99.24	1,272.48	105.19	1,348.83
	Boarding houses	Irrespective	99.24	1,272.48	105.19	1,348.83
	Schools	Irrespective	99.24	1,272.48	105.19	1,348.83
	Hospitals	Irrespective	99.24	1,272.48	105.19	1,348.83
	Government	Irrespective	99.24	1,272.48	105.19	1,348.83
	Sport Organisations	Irrespective	99.24	1,272.48	105.19	1,348.83
	Charity Organisations	Irrespective	99.24	1,272.48	105.19	1,348.83
	Other	Irrespective	99.24	1,272.48	105.19	1,348.83
Bulk	Per load or part thereof		408.63		433.15	

Example of monthly refuse tariff

Size of erf	Current monthly	Proposed monthly	Additional amount	Increase
m2	Account	Account	Payable	
	R	R	R	%
500	49.75	52.74	2.99	6
950	72.72	77.80	4.36	6
1200	99.24	105.19	5.95	6
1550	106.93	113.35	6.42	6
Business	190.79	202.24	11.45	6

1.4.3.4 Property Rate Tariff

Property rates are mainly used to provide funds for non-remunerative services such as the cost of governance and administration of council, financial services, sport and recreation facilities. These funds also pay for the costs of maintaining an orderly community, for an example, as far as traffic, safety, trade, industries, health, roads and parks are concerned.

Depending on circumstances at a given moment, a rate payer may make use of these collective services to a greater or lesser degree. Given this kind of collective service, the provision must be financed by a general tax unlike the specific charge of measurable services such as water and electricity.

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Annexure to MFMA Circular 51 as well as Government Gazette 33016, also known as the *“Amended Municipal Property Rates Regulations on the Rate Ratios between Residential and Non-Residential Properties”* were published to achieve national uniformity regarding property taxes.

Two factors determine the amount that the property owner must pay to a local authority for assessment rates: Firstly, the assessed value of the property and secondly, the effective assessment rate. Due to the implementation of the MPRA a new tariff structure has been formulated. The calculation is based on the market value of the property.

The applicable tariff on 1 July 2016 is 0,010147c (residential) (1 July 2015 – 0,009573c) and 0,020486c (1 July 2015 – 0,019326c) (business, commercial, industrial and mining) and 0,002537c (1 July 2015 – 0,002393c) (agriculture, state owned property excluding residential, public service infrastructure, public benefit organization property) in the Rand.

The table below reflects assessment rates compared to total expenditure:

Year	Operating Budget ('000)	Rates ('000)	%
2015/2016	783 557	54 402	6.94%
2016/2017	848 803	59 966	7.06%
2017/2018	891 383	62 011	6.96%
2018/2019	956 494	64 550	6.75%

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The following recommended tariff structure for Property Tax for 2016/17 compared to 2015/16 financial year:

TYPE	TARIFF CODE	15/16		16/17	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1.Improved residential stands	VA771	0.009573	40.00	0.010147	40.00
2. Improved business stands	VA772	0.019326	0.00	0.020486	0.00
3. Pensioners as rate policy	VAIND	0.009573	100.00	0.010147	100.00
4. Pensioners as rate policy	VAIND	0.009573	100.00	0.010147	100.00
5. State owned properties	VA775	0.002393	30.00	0.002537	30.00
6. Improved flats	VA776	0.009573	40.00	0.010147	40.00
7. Developed erven industrial	VA777	0.019326	0.00	0.020486	0.00
8. Undeveloped erven	VA778	0.019326	0.00	0.020486	0.00
9. Municipality	VA779	0.000000	0.00	0.000000	0.00
10. Undeveloped business erven	VA780	0.019326	0.00	0.020486	0.00
11. Permission to do business on residential erven	VA781	0.019326	0.00	0.020486	0.00
12. Undeveloped industrial	VA782	0.019326	0.00	0.020486	0.00
13. Undeveloped flat erven	VA783	0.019326	0.00	0.020486	0.00
14. Private parks	VA788	0.002393	0.00	0.002537	0.00
15. Private streets	VA789	0.002393	0.00	0.002537	0.00
16. Agricultural fields (Macalacaskop)	VA790	0.002393	0.00	0.002537	0.00
17. Welfare organizations, Hospitals, Clinics etc	VA791	0.002393	100.00	0.002537	100.00

Agricultural

TYPE	TARIFF CODE	15/16		16/17	
		CENT IN RAND	% DISCOUNT	CENT IN RAND	% DISCOUNT
1.Residential	VA5771	0.002393	0.00	0.002537	0.00
2. Business, Commercial, Ecotourism, game hunting	VA5772	0.002393	0.00	0.002537	0.00
3. Pensioners as rate policy	VA5773	0.002393	100.00	0.002537	100.00
4. Pensioners as rate policy	VA5774	0.002393	100.00	0.002537	100.00
5. State owned properties	VA5775	0.002393	0.00	0.002537	0.00
6. Industrial, agricultural holdings	VA5776	0.002393	0.00	0.002537	0.00
7. Undeveloped	VA5777	0.002393	0.00	0.002537	0.00
8. Municipality	VA5778	0.000000	0.00	0.000000	0.00
9. Mining	VA5779	0.019326	0.00	0.020486	0.00
10. Welfare organization, Hospitals, Clinics etc	VA5780	0.002393	100.00	0.002537	100.00

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1.5 Operating Expenditure Framework

The following table gives a breakdown of the expenditure categories for the 2016/17 financial year:

Description	Medium-Term Revenue & Expenditure Framework		
	2016/17	2017/18	2018/19
Operating Expenditure			
Employee related costs	279 954 735	295 579 183	309 033 523
Remuneration of councilors	21 086 102	22 105 400	23 201 001
Bad debts	44 000 000	45 000 000	47 000 000
Collection costs	232 033	245 491	259 729
Depreciation	71 313 450	83 290 677	97 437 279
Repairs and maintenance	64 832 371	50 650 199	59 980 709
Interest paid	-	-	-
Bulk purchases – Electricity	178 589 556	196 820 574	208 236 168
Bulk purchases – Water	35 345 240	38 156 482	41 191 672
Contracted services	62 026 202	63 759 872	65 871 026
Grants and subsidies paid	1 669 962	1 959 093	2 048 060
General expenditure	66 402 912	68 597 369	75 225 182
New connections	1 785 886	1 889 467	1 999 056
Free basic electricity	4 298 555	4 627 520	4 946 842
Free basic water	19 158 362	20 624 538	22 047 733
Free basic refuse - Indigents	1 313 447	1 413 964	1 511 535
Free basic sewerage - Indigents	667 527	718 612	768 200
Free basic assessment rates	2 306 901	2 483 447	2 654 817
Inter-departmental charges	30 110 676	31 857 096	33 704 806
Less: Expenditure recharged	(6 180 547)	(6 539 018)	(6 918 283)
Less: Amounts charged out	(30 110 676)	(31 857 096)	(33 704 806)
Total Operating Expenditure (Nett)	848 802 694	891 382 870	956 494 249

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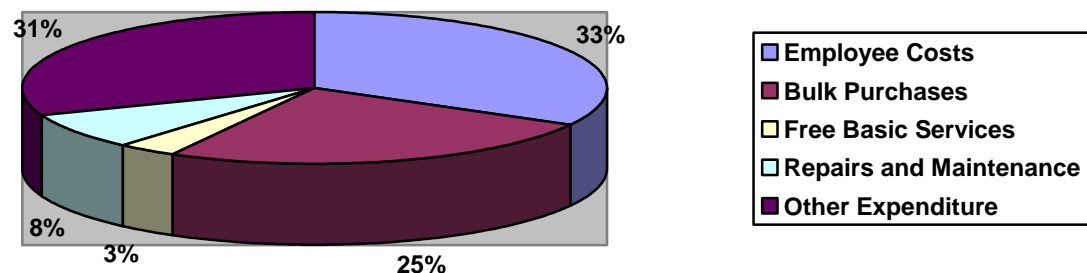


Figure 2 -Main Operational Expenditure Categories

- National Treasury requires that municipalities must allocate 8% of the Property Plant and Equipment towards repairs and maintenance. Mogalakwena municipality needs to allocate R131 770 898 being 8% of R1 647 136 224. However, due to financial constraints the municipality can only allocate R64 832 371.
- The municipality needs to increase its revenue generation in order to adequately fund its operational requirements, in line with National Treasury directives.

1.6 Capital Expenditure

A breakdown of the capital expenditure for the 2016/17 financial year is attached as pages 131 to 156.

1.7 Annual Budget Tables

The Annual Budget Tables:

Table A1	Budget summary – (attached as <u>page 57</u>)
Table A2	Budgeted Financial Performance (revenue and expenditure by standard classification) – (attached as <u>pages 58 to 60</u>)
Table A3	Budgeted Financial Performance (revenue and expenditure by municipal vote) - (attached as <u>pages 61 to 63</u>)
Table A4	Budgeted Financial Performance (revenue and expenditure) - (attached as <u>page 64</u>)

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Table A5 Budgeted Capital Expenditure by vote, standard classification and Funding - (attached as pages 65 to 67)

Table A6 Budgeted Financial Position - (attached as page 68)

Table A7 Budgeted Cash Flows - (attached as page 69)

Table A8 Cash backed reserves/ accumulated surplus reconciliation - (attached as page 70)

Table A9 Asset Management - (attached as page 71)

Table A10 Basic service delivery measurement - (attached as page 72)

Budget Related Charts and Explanatory Notes:

Supporting information, charts and explanations of trends and anomalies for each table are reflected as **table SA1 – SA 37** (attached as pages 73 to 130)

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Part 2 – Supporting Documentation

2.1 Overview of Annual Budget Process

2.1.1 In undertaking its annual budget process, Mogalakwena Municipality was guided by the following key legislation and documents:

- Municipal Finance Management Act;
- Municipal Systems Act;
- MFMA Circular 55, 58, 59, 66, 67, Annexure to Circular 67, 70, 72, 74, 78 & 82
- National Treasury instruction 1 of 2013/2014
- Government Gazette 39707 of 18 February 2016

The municipality is always conscious of the fact that the IDP, Budget and other consultative processes have to be undertaken with credibility and honesty in order to ensure good governance and accountability. The Municipality engaged its various stakeholders in preparing this 2016/17 MTREF budget, including:

- Communities in all 32 wards
- Heads of Sector departments
- Private Sector
- Traditional Leaders
- Ward committee representatives
- Community based organizations
- NGO's
- Disabled people's groups, women, youth and pensioners.
- Community Development Workers
- Council of Churches
- Mining Sector

From these community participation and consultation process, the municipality identified and prioritized the needs of the communities. The priorities were later allocated weights and an iteration process was undertaken to find the best fit between the needs prioritized and the funding envelope, consisting of both own revenue and grant funding. As is almost always the case in any budget process, some priorities were identified that can not be funded in the 2016/17 financial year.

These priorities and their related programmes/ projects are included in the medium term IDP for funding consideration once additional funding becomes available, currently or in the future years.

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In all these public consultation and participation process, including internal prioritization and negotiation processes, the Mayor played an active oversight role over the IDP and Budget as required by Section 53(1)(a) of the MFMA, which states that the Mayor of a municipality must provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. Under the influence of the Mayor, engagements were also held over a number of days with the Councillors in the budget and prioritization processes. The table below is an extract of the key deadlines relating to the Budget and IDP processes as required by Section 21(1)(b) of the Municipal Finance Management Act, 2003:

MONTH	IDP	PMS	BUDGET
July	Print and distribute final approved IDP. Development of 2016/17 IDP Process Plan that guide the planning, adoption of the plan. Give notice to local community of particulars of the Process Plan.	Conclude annual performance agreements Print and distribute final approved SDBIP	Place approved annual budget and policies on the municipal Web site Print and distribute final approved budget Establish appropriate committees and consultation forums
August	Table to EXCO, council the IDP Process Plan for approval. Conduct stakeholder registration. Consider comments from various stakeholders during 2015/16 IDP Roadshows	Place annual performance agreements on the municipal website Development and submission of annual performance report	Table in council IDP, PMS and budget process plan

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September	Consider proposals received from MEC, if any.(IDP preparation process) Public consultation in terms of Tariffs, Indigent Credit, Credit Control and FBE. Public consultation in terms of CBP.		Implement process plan Commence community and stakeholder consultative process, review inputs, financial models, assess impacts on tariffs and change and consider funding decisions
October	Setting new strategic agenda for the IDP in light of the new focus of Council.	Develop and submit the 1 st Quarter Performance Report to Council and Coghsta	Consolidate community inputs on proposed tariffs.
November & December	Horizontal and vertical alignment with District, Province and other stakeholders begins.		Finalize inputs from bulk resource providers and agree on proposed price increase
January	Horizontal and vertical alignment with District, Province and other stakeholders continues. Departments identify projects/programmes.	Development and consideration by Municipal Manager of the mid-year performance Report. Finalize, and publicize Mid-year report. Table the final 2014/2015 Annual Report to Council.	Note the president's "State of the Nation Address " for further budget priorities
February	Horizontal and vertical alignment with District, Province and other stakeholders continues. Departments identify projects/programmes.	Make the final 2014/2015 Annual Report public for comments.	Note National budget for provincial and national allocations to municipalities for incorporation into budget

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March	<p>Finalize Capital Investment Plan and Financial Plan.</p> <p>Tabling of final IDP & budgets before council.</p> <p>Publication of tabled final IDP, budget and invite local communities and stakeholders for comments and inputs.</p>	<p>Submit the final 2014/2015 Annual Report to MPAC.</p> <p>Submit the oversight report on the Annual Report to Council for approval.</p>	<p>Table in council the final IDP, annual budget and all supporting documentation</p> <p>Publicize the tabled final budget</p>
April	<p>Prepare and conduct IDP/Budget roadshows.</p>	<p>Prepare SDBIPs linked to IDP strategies, objectives, KPI's and targets.</p> <p>Develop and submit the 3rd Quarter Performance Report to Council and COGHSTA</p>	<p>Consultation on tabled final budget, publicize and conduct public hearing</p>
May	<p>Exco recommends adoption of the IDP to Council.</p> <p>Council sitting to approve IDP, and budget.</p>		<p>Consideration of community views and other stakeholders and revise budget if necessary</p> <p>Approval of annual budget, including taxes, tariffs and policies.</p>
June	<p>Submission of approved IDP to the COGHSTA and Provincial Treasury</p>	<p>Prepare final SDBIPs linked to IDP strategies, objectives, KPI's and targets.</p> <p>Submission of final SDBIPs and Annual PAs to Mayor.</p> <p>Mayor approves the SDBIPs</p>	<p>Submission of approved Budget to the COGHSTA, Provincial Treasury and National Treasury</p>

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2.1.2 The following policies were taken into account when developing the annual budget:

- The Rates Policy
- Credit Control and Debt Collection Bylaw
- Indigent Policy
- Tariff Policy
- Investment & Cash Management Policy
- Supply Chain Management Policy
- Asset Management Policy and Asset Management Procedure Manual
- Expenditure Management Policy & Procedure Manual
- Policy on Unauthorised, Irregular and Fruitless & Wasteful Expenditure

2.1.3 Community consultation process with communities and key stakeholders:

Section 22 of MFMA stipulates that immediately after the annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents; invite the local community to submit representations in connection with the budget; and submit the annual budget to National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA provides further that after considering all budget submissions, the council must allow the mayor an opportunity-

- (a) to respond to the submissions
- (b) if necessary, to revise the budget and table amendments for consideration by council.

The extensive consultations took place from 03 June 2016 and ended on 12 June 2015. Stakeholders who attended the meetings included ward committees, members of the community, Traditional Leaders, community, representatives from youth organizations, sector departments, mining houses and business.

The following provides an overview of the publication and public participation activities:

Councillors briefing sessions:

Councillors were briefed on 30 May 2016 before proposals were tabled to other stakeholders.

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Publication of the final budget:

The final notices will be published in local and national newspapers inviting the public to view and inspect the budget documents to enable them to submit inputs for the final budget. The final IDP/ Budget report will be available at the library, community halls, tribal offices, SDA's and the MPCC's.

Ward committees and traditional authorities, organized business and sector departments also participate in the IDP representative forum meetings.

Public hearing: The stakeholders will be given an opportunity to raise questions and comments on the progress made by council. Any written submissions received, will be handed to the Manager: Developmental Services at the end of the community consultation process. The Mayor will respond to those issues that are raised.

Main concerns and comments raised during the consultation process

After the tabling of the final budget to council, the concerns raised by the stakeholders on the following matters will be addressed through the final budget:

- Water and sanitation
- Roads and storm water
- Electricity
- Housing
- High-mast lights
- Land: Cemetery
- Project Implementation and Monitoring
- Infrastructure Maintenance
- New clinics
- Fencing of ploughing fields
- General

The IDP, Budget and Mayoral roadshows were conducted from 03 June 2016 to 12 June 2016.

2.2 Overview of Alignment of Annual Budget and IDP

The IDP of the municipality must be reviewed annually in terms of section 34 of the MSA and section 21 of the MFMA.

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2.2.1 Vision of the Municipality

The vision of Mogalakwena Municipality is ***to be the leading, sustainable and diversified economic hub focused on community needs.***

2.2.2 Details of proposed amendments to the Integrated Development Plan

New needs that emerged after June 2015 have been taken into account when compiling the final 2016/2017 IDP.

The final 2016/17 IDP will be presented to council on 15 June 2016 as per the IDP, Budget and PMS process plan.

2.2.3 Revenue, operating expenditure and capital expenditure aligned to IDP

Developmental services together with Finance department initiated that the first priority must be allocated the higher percentage of funding.

The prioritization criteria and their respective weights for 2016/17 are as follows:

Source of funding	CRR	MSIG	MIG	DME	DWA	EEDS	WSIG	INEG
	%	%	%	%	%	%	%	%
Roads and storm water	13.07	0	24.73	0	0	0	0	0
Water and Sanitation	35.99	0	54.28	0	100	0	100	0
LED	0.03	0	0	0	0	0	0	0
Land and Cemeteries	1.39	0	0	0	0	0	0	0
Electricity	12.69	0	4.38	100	0	100	0	100
Waste Management	10.68	0	0	0	0	0	0	0
Other	26.15	100	16.61	0	0	100	0	0

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2.3 Measurable performance objectives and indicators

The measurable performance indicators and objectives for revenue and expenditure (both capital and operating) will be contained in the Service Delivery Budget Implementation Plan (SDBIP) of the municipality and of the Section 57 managers. The SDBIP will have to be designed such that it gives effect to the implementation of the budget, with quarterly performance targets. The SDBIP will be submitted to the Mayor immediately after the budget has been approved. The time-frames as contained in Section 53(1)(c) of the MFMA will be complied with.

2.4 Overview of budget-related policies

The municipality acknowledges that for the budget to be credible and balanced, it must be supported by policies that guide the revenue and expenditure estimates. To ensure this, the budget related policies have been reviewed to take the socio-economic realities of the communities into account when compiling the 2016/2017 final budget.

2.4.1 Tariff Policy

The Tariff Policy is amended as follows:

Clause 10 on page 13 of the policy changes from reading as follows:

“This Policy will be known as the Tariff Policy and shall commence on 01 July 2015”

to reading as follows:

“This Policy will be known as the Tariff Policy and shall commence on 01 July 2016”

The policy is attached as pages 197 to 209.

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2.4.2 Rates Policy

The Rates Policy has been amended as follows:

10.3.3 Exemptions

- (aa) the joint income of that person and his/her spouse, if any, for the year ended 30 June may not exceed R 60 000 (sixty thousand rand) per year or such higher amount as may be determined in the Municipality's budget;

The amended Rates Policy is attached as pages 210 to 228.

2.4.3 Debt Collection and Credit Control Policy

There are no amendments to the Debt Collection and Credit Control Policy.

The Debt Collection and Credit Control By-Law is attached as pages 229 to 239.

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2.4.4 Indigent Policy

The Indigent Policy has been amended as follows:

Clause 9 on page 5 of the policy changes from reading as follows:

"The title of this policy is indigent policy and the commencement date is on the 01 July 2015"

to reading as follows:

"The title of this policy is indigent policy and the commencement date is on the 01 July 2016"

The amended Indigent Policy is attached as pages 240 to 245.

2.4.5 Investment and Cash Management Policy

There are no amendments to the Investment and Cash Management Policy.

The policy is attached as pages 246 to 260.

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2.4.6 Asset Management Policy

The Asset Management Policy is amended as follows:

The name of the municipality on the cover page which read as:

“Mogalakwena Municipality”

Has been amended and is now read as follows:

“Mogalakwena Local Municipality”

Section 1 of the policy which read as:

“Policy Authority and Responsibility

Any departures from the approved policies stated in this manual will require the prior written approval from the following authority and persons:

APPROVAL :Mogalakwena Municipality: EXCO and Council

MAINTAINED BY :Financial Division: Asset Management

IMPLEMENTED BY :Mogalakwena Municipality: Departmental Heads.

*EXECUTION :Mogalakwena Municipality: Departmental Heads and
Officials.*

SUPPORTED BY :Finance Division: Asset Management”

Has been amended and is now read as follows:

“Policy Authority and Responsibility

Any departures from the approved policies stated in this manual will require the prior written approval from the following authority and persons:

APPROVAL :Mogalakwena Local Municipality: EXCO and Council

MAINTAINED BY :Financial Division: Asset and Fleet Management Division

IMPLEMENTED BY :Mogalakwena Local Municipality: Departmental Heads.

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EXECUTION :Mogalakwena Local Municipality: Departmental Heads and Officials.

SUPPORTED BY :Finance Division: Asset and Fleet Management”

Section 6.4 of the policy which read as follows:

“Departmental Asset Controller

“The Departmental Asset Controller under the supervision and authority of the Head of Department must ensure that: Control is exercised over the respective department’s assets and shall report any enhancement/improvement, transfer or disposal of the respective department’s assets to the Corporate Support Services Department.”

Has been amended and is now read as follows:

“Departmental Asset Controller

The Departmental Asset Controller under the supervision and authority of the Head of Department must ensure that: Control is exercised over the respective department’s assets and shall report any enhancement/improvement, transfer or disposal of the respective department’s assets to the Budget and Treasury Office (Asset and Fleet Management)”

The policy is attached as pages 261 to 297.

2.4.7 Asset Management Procedure Manual

The Asset Management Procedure Manual is amended.

The procedure manual is attached as pages 298 to 307.

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2.4.8 Supply Chain Management Policy

The Supply Chain Management Policy is amended as follows:

Preamble

- The version year has been included at the bottom page of each page of the policy.

1. The following sentence(s) are added under clause 9.

- The committee automatically dissolves at/when the final award takes place and will reconvene when the need arises on the same project.

2. Clause 9 of the existing policy to be added and updated as per below:

- Clause 09(b) (ii) to be changed to “Supply Chain Administrator”.
- Clause 09 (c) (ii) add “Community and Planning and Development”

3. Clause 10 to be added and amended as per below:

- Clause 10 (1)(b)(i) “must be approved by the accounting officer on recommendation by the Bid Specification Committee”.

4. Clause 14 to be amended as follows:

- 14(1)(d) under the R200 000.00 and above be changed to “.....and submitted to Supply Chain Management for evaluation”

5. Clause 16 changes as per below:

16(2) (a) to read “At least twice a year through newspapers.....”

16 (2) (c) to read “the database must be advertised for opening for atleast one month.....”

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6. Clause 20 of existing policy to be augmented as below:

- Clause 20(3) the sale of bid documents “Micro projects R130.00, Small Projects R260.00, Medium Projects R390.00 and Large Projects R520.00”.
- Clause 20 (5) under paragraph one and two, the words “site inspection must be replaced with “briefing meeting”

7. Clause 23 to be added as follows:

- Clause 23(03) add a sentence to read “the accounting officer must on a quarterly basis report to council in respect of all/any goods and services procured under this clause”.

The amended policy is attached as pages 308 to 386.

2.4.9 Irregular, Fruitless and Wasteful Expenditure Policy

There are no amendments to the Irregular, fruitless and wasteful expenditure policy.

The policy is attached as pages 387 to 391.

2.4.10 Expenditure Policy and Procedure Manual

There are no amendments to the Expenditure Policy and Expenditure procedure manual.

The policy is attached as pages 392 to 400.

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2.4.11 Virement, adjustment budgets, and unforeseen and unavoidable expenditure

The mid-year budget and performance review, coupled with the monthly budget statements are considered key documents to assist with the preparation of an adjustment budget and forthcoming budget.

The 2016/17 medium term budget should only be amended by:

Departmental Managers authorizing offsetting operating budget variations within the votes delegated to them, essential allowing variations within the department budget 'groups' but not across budget groups. Therefore, for example, manager could transfer allocations within an expenditure group such as 'Employee costs'. It should be noted that each capital project also represents a vote requiring Council approval to amend.

A mid-year review by the Accounting Officer in accordance with the MFMA, due for completion by January, which would possibly culminate in an Adjustment Budget being presented to Council in the month following the review, if required.

An Adjustment Budget in accordance with the provision of section 28 of the MFMA brought to Council for approval in circumstances where extraordinary events require fundamental and urgent change to budget.

Section 28 of the MFMA, Act No. 56 of 2003 provides as follows:

“(1) A municipality may revise an approved annual budget through an adjustments budget.

(2) An adjustment budget-

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*
- (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*
- (c) may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*
- (d) may authorize the utilization of projected savings in one vote towards spending under another vote;*

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- (e) *may authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*
 - (f) *may correct any errors in the annual budget; and*
 - (g) *may provide for any other expenditure within a prescribed framework*
- (3) *An adjustment budget must be in a prescribed form.*
- (4) *Only the mayor may table an adjustment budget in the municipal council, but an adjustment budget in terms of section (2)(b) to (g) may only be tabled within any prescribed limitations as to timing frequency.*
- (5) *When an adjustment budget is tabled, it must be accompanied by –*
 - (a) *an explanation how the adjustment budget affects the annual budget;*
 - (b) *a motivation of any material changes to the annual budget;*
 - (c) *an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and*
 - (d) *any other supporting documentation that may be prescribed.*
- (6) *Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.*
- (7) *Sections 22(b), 23(b) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustment budget.”*

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Unforeseen and Unavoidable Expenditure

Section 29 of the MFMA, Act No.56 of 2003 provides as follows:

“(1) The mayor of a municipality may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

(2) Any such expenditure –

(a) must be in accordance with any framework that may be prescribed,

(b) may not exceed a prescribed percentage of the approved annual budget,

(c) must be reported by the mayor to the municipal council at its next meeting, and

(d) must be appropriated in an adjustment budget.

(3) such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorized and section 32 applies.”

2.5 Overview of budget assumptions

2.5.1 Review of external factors

Population migration

Population migration has an impact on the provision of bulk services. As people move into various localities, they demand more services which the municipality did not plan for in advance, for example the demand for RDP houses and free basic services will increase as a result of migration into the municipality.

Employment

One of the key social problems facing the Mogalakwena Municipality is Poverty. The unemployment estimates in the Municipality vary between 45% and 70% of the economically active population (people between the ages of 15 and 64 years). Women, and especially rural women, form the greatest number affected by the lack of job opportunities as well as other social problems.

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Development of Businesses

The following new business development areas have been approved by council:

- Ext 13 & 6 – Industrial sites are currently being sold
- Ext 13 (Erf 4794) – Site for a shopping complex has been approved by council. The municipality is busy with the rezoning and thereafter the tender will be advertised.
- Erf 4699 – Site approved by council for a motor dealership. The municipality is busy with the sub-division and re-zoning, thereafter the tender will be advertised.
- Portion 197 of 80 – PPR town and townlands 44ks: rezoning to be done.

New residential areas

The following new residential areas have been approved or proposed to council:

- Rebone Ext – 600 sites (still waiting for rural development to donate land to the municipality)
- Ext 15 – Replanning (Awaiting budget to be allocated for re-planning)
- Sekgakgapeng – 600 Sites (Waiting for Cogesta to finalize and survey)
- Sukses (Weenen) – 300 Sites (Awaiting budget allocation to proceed)
- Taueatsoala – 1000 Sites (Waiting for Cogesta to do the survey)
- Township establishment 21, 22, 23 (remaining Ext Macala, between Bargain, Ext 17, Zone B and C)
 - Ext 21 & 22 – Geotech investigation to be performed
 - Ext 23 – Awaiting Geotech investigation to be completed on Ext 21 & 22
- Subdivision of Ext 14 – Budget is needed for subdivision.
- Extension of Mahwelereng – on the portion of farm Makalakaskop, awaiting budget for planning phase.

Bulk services still have to be provided to the approved areas and additional bulk services will be required if the proposed sites are approved by council.

2.5.2 General inflation outlook and its impact on municipal activities

The inflation rate of 6%, 5.8% and 5.8% were applied for the 2016/2017 to 2018/2019 financial years consecutively. This is an indication of the rising costs to provide services to the municipality and the municipality will have to look for better methods of cost-reduction and cost-recovery.

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2.5.3 Interest rates for borrowing and investment of funds

The municipality has no borrowing obligations. The interest rate for investment of funds is higher than the previous year and this will increase the interest that the municipality generates on investments.

2.5.4 Timing of Revenue Collection

The municipality is expecting its revenue collection to improve as a debt collector has been appointed. Prepaid meters for Extension 19, 20 and Phola Park have been budgeted for through the Water Conservation and Demand Management. These projects are aimed at reducing the municipality's bad debts and improve revenue generation.

Debt collection has been negatively impacted by the labour unrest in the municipality.

2.5.5 Growth or Decline in Tax Base of the Municipality

There was no significant growth in the tax base as the MPRA has been phased in. The valuation roll that is currently being used is from 01 July 2013 to 30 June 2017, the annual supplementary valuation roll is currently in process.

2.5.6 Collection Rates

The average collection rate for the past financial year was 73.99% but should be improved to be sustainable on the long-term.

2.5.7 Price Movements

The municipality has received written confirmation from Lepelle-Northern Water and NERSA indicating price increases in the purchase price for bulk water and bulk electricity of 8% and 7.64% respectively.

2.5.8 Average salary increases

A 7% increase on salaries is budgeted as per the circular 74 from National Treasury

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2.5.9 Industrial relations, climate reorganization and capacity building

The industrial sites that are currently being sold by the municipality will result in an expansion of the industrial area. If a significant number of the sites are sold, it will result in an enormous injection for the area in respect of services and job creation. We however need to conduct a land audit in order to determine which land belongs to the municipality and can be used to plan for an industrial park.

2.5.10 Trends in Demand for Free or Subsidized Basic Services

There is a growth of 0.31% in the population which is having an effect on the households. Another factor that influences the increase in the demand for free or subsidized basic services is the migration of people into the municipal are.

2.5.11 Changing Demand Characteristics

The demand for services exceeds available resources and the municipality therefore cannot meet all the needs of the communities at this stage. Some of the needs that cannot be met by the municipality in the 2016/2017 financial year have been included in the 2017/2018 and 2018/2019 financial years.

2.5.12 Trends in demand for Free or Subsidized Basic Services

Although the free basic electricity was phased out for non-indigent consumers in the 2010/11 financial year, this has not improved the municipality's affordability to provide services to all its consumers. All consumers will however continue to receive 6kl of free basic water in the 2016/2017 financial year.

2.5.13 Impact of National, Provincial and Local Policies

The National Treasury Circular 51 (Section 3.3) indicated that the Department of Cooperative Governance and Traditional Affairs intended to introduce further amendments to the Municipal Property Rates Act to improve its implementation.

Mogalakwena municipality as a result, paid particular attention to ensuring that the property rates charges to key economic sectors, such as agriculture, remain affordable.

The municipality further prepared the budget with consideration of MFMA circulars and other policy imperatives.

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2.5.14 Ability of the Municipality to Spend and Deliver on the Programme

Capital projects will be implemented from grant funding but there is insufficient funds available for adequate maintenance of infrastructure. This may have a negative impact on the infrastructure as it may deteriorate rapidly in the future.

In the 2015/2016 financial year, the MIG spent is approximately 90% of the R143 million allocated. For 2016/2017 R139 million is allocated for MIG, R140 million allocated for RBIG and R30 million allocated for WSIG.

2.5.15 Implications of Restructuring and other Major Events into the Future

Job descriptions for the municipality are being reviewed and the process of job evaluation is in progress. The results of the job evaluation process will have financial implications on the 2016/2017 budget.

The 2016 municipal elections will see an introduction of a new councillors and this may have an impact on the IDP priorities that will be set by council.

The municipality is not aware of any other restructuring and/or major events that will affect the municipality in the foreseeable future.

2.6 Overview of budget funding

Section 18(1) of the MFMA requires the budget of a municipality to be funded from-

- (a) realistic anticipated revenue to be collected;
- (b) cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) borrowed funds, but only for the capital budget referred to in section 17(2) of the MFMA.

Section 18(2) of the MFMA requires the revenue projections in the budget to be realistic, taking into account-

- (a) projected revenue for the current year based on collection levels to date; and
- (b) actual revenue collected in the previous financial year.

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This budget has been prepared taking into account the requirements of the abovementioned section. Revenue was estimated using a collection rate of 85% to billings. The capital budget was limited to the gazetted funding. An adjustment budget will be compiled for council consideration once more funding becomes available from either internal and/or external sources.

2.6.1 Investments

Investments held represent cash backed accumulated surpluses and the unspent conditional grants and receipts.

The Table below indicates the investment particulars by maturity as at 31 May 2016:

Institution	Investment	Monetary value
		'000
ABSA	Short term	50 000
FNB	Short term	50 000
Nedbank	Short term	230 000
Standard Bank	Short term	165 000
Total		495 000

The total amount invested externally as at 31 May 2016 amounts to R495 million which is R70 million less than the investments as at 15 May 2014.

The interest earned from these investments would be utilized to fund the operating budget. The capital replacement reserve is also backed by the investments.

Supporting **Table SA 16** is attached as page 101.

2.6.2 Estimated debtors collection levels

A debtor's collection rate of 85% of levied amounts is estimated for the 2016/17 financial year.

2.6.3 Planned proceeds from sale of assets

The municipality developed 1 200 residential stands for resale in Extension 12. To date the municipality has sold 753 stands. 110 of the stands have been sold to the mine for the construction of a private hospital and an old age home.

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2.6.4 Planned proceeds from lease of assets

Proceeds from rental of facilities and equipment are estimated at R1 145 375.

2.6.5 Planned use of bank overdrafts

Mogalakwena has no plans to utilize bank overdrafts in the 2016/17 financial year.

2.6.6 Use of previous year's cash backed accumulated surpluses

After the compilation of the 2015/16 financial statements, if there is any cash surpluses they will be addressed in the adjustment budget 2016/17.

2.7 Expenditure on allocations and grants programmes

Provision is made in the 2016/17 budget for the following statutory and reserve fund contributions:

- Capital Replacement Reserve : R 89 915 500
- Provision for bad debt reserve : R 44 000 000

Contributions in total amount to R 133 915 500 and this represents 15.78% of total operating expenditure. The working capital reserve makes provision for non-payment of services.

Allocations and grants made by the municipality

The following allocations and grants are made by the municipality for 2016/17:

Assistance to indigents in distress	: R 400 000
Assistance to indigents deserving students	: R 350 000
Community development worker support	: R 46 322
Discretionary Fund Mayor	: R 600 000
Sport events	: R 100 000
Mayoral Special Programmes	: R 1 835 029
Free burials paupers indigent	: R 23 640

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Free Basic Services for indigents - Water	: R 19 158 362
- Electricity	: R 4 298 555
- Sewer	: R 667 527
- Refuse	: R 1 313 447
- Assessment Rates	: R 2 306 901

2.8 Councillor and employee benefits

The following information with regard to the salary budget which forms part of the operating budget must be taken into consideration by council before approving the budget:

- Provision for a 7% increase was made for councilors and 7% for officials
- No new positions are budgeted for in the 2016/2017 financial year and the budget is based on the beginning scale of the post level.

Disclosure of salaries and allowances and benefits is attached as supporting **Table SA 22 and 23** pages 107 to 108.

2.9 Monthly targets for revenue, expenditure and cash flow

The disclosure on monthly targets for revenue, expenditure and cash flow is attached **Table SA 25 to SA 30** as pages 110 to 115.

2.10 Annual budgets and SDBIP

Section 53(1)(c)(ii) of the MFMA Indicates that the mayor of a municipality must take all reasonable steps to ensure that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget.

The SDBIP will be submitted to the mayor immediately after the budget has been approved. The time-frames as contained in Section 53(1)(c) of the MFMA will be complied with.

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2.11 Contracts having future budgetary implications

Contracts having future budgetary implications are reflected in **table SA33** attached as page 118.

2.12 Capital expenditure details

A combination of grant funding and own funds will be used to fund the capital budget. The detailed final capital budget over the 2016/17 MTREF is attached as pages 131 to 156.

2.13 Legislation compliance status

This budget has been prepared in accordance with the requirements of the Municipal Finance Management Act, the Municipal Budget and Reporting Regulations and the Municipal Systems Act. The acting municipality has complied with the new budget format when compiling the 2016/17 to 2018/19 MTREF.

2.14 Other supporting documents

Circular 70, 72, 74, 78 and Instruction 1 of 2013/2014 as issued by National Treasury are complied with in the preparation of the 2016/2017 to 2018/2019 budget. Circular 78, being the latest budget circular is attached as pages 401 to 421.

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2.15 Municipal Manager's Quality Certificate

Quality certificate

I MP Nake, Acting Municipal Manager of Mogalakwena Municipality, hereby certify that the 2016/2017 final budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the final budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name : MP Nake

Acting Municipal Manager of: Mogalakwena Municipality (LIM367)

Signature : _____

Date : 20 June 2016